

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Saginaw Transit Authority Regional Services	County Saginaw
Audit Date 9/30/04	Opinion Date November 19, 2004	Date Accountant Report Submitted to State: January 24, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo CPAs and Business Consultants			
Street Address 3023 Davenport	City Saginaw	State MI	ZIP 48602
Accountant Signature 			

**Saginaw Transit Authority Regional Services**

**Saginaw, Michigan**

**Annual Financial Statements  
Auditors' Report  
and  
Single Audit Report**

**September 30, 2004**

# **Saginaw Transit Authority Regional Services**

**Saginaw, Michigan**

## **Annual Financial Statements**

**Auditors' Report**

**and**

**Single Audit Report**

**September 30, 2004**

### **BOARD OF DIRECTORS**

#### **OFFICERS**

LACRETA EVANS	CHAIRPERSON
JEANNE SWANK	VICE CHAIRPERSON
DWAYNE PARKER	SECRETARY
DAN LAPAN	TREASURER
JANICE ANDERSON	TRUSTEE
KATHLEEN BOTTERY	TRUSTEE
ANGELO GUERRIERO	TRUSTEE
KEN HORN	TRUSTEE
DENNIS MORRISON	TRUSTEE

#### **ADMINISTRATION**

SYLVESTER PAYNE	GENERAL MANAGER
PAUL KEKEL	DIRECTOR OF FINANCE

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## Independent Auditors' Report

Board of Directors  
Saginaw Transit Authority Regional Services  
Saginaw, Michigan

We have audited the statement of net assets of the Saginaw Transit Authority Regional Services as of and for the year ended September 30, 2004, and the related statements of revenue, expenses and changes in net assets, and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Saginaw Transit Authority Regional Services as of September 30, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Saginaw Transit Authority Regional Services will continue as a going concern. During the year, the millage was turned down by the voters and the Authority has cut expenditures. The Authority plans to try to obtain an operating levy in fiscal year 2005. Future working capital requirements are dependent on Saginaw Transit Authority Regional Services' ability to restore and maintain profitable operations. It is not possible to predict the outcome of future operations. Those conditions raise substantial doubt about Saginaw Transit Authority Regional Services' ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 1, the Authority has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, as of October 1, 2003.

In accordance with *Government Auditing Standards*, we also issued a report dated November 19, 2004, on our consideration of Saginaw Transit Authority Regional Services internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Mileage Data is unaudited and we express no opinion on it.

Saginaw Transit Authority Regional Services has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not a required part of, the basic financial statements.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
November 19, 2004

# Saginaw Transit Authority Regional Services

## Statement of Net Assets

September 30, 2004

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### Assets

#### Current assets

Cash and cash equivalents	\$ 690,053
Accounts receivable	90,510
Due from federal and state government	419,044
Inventories	155,296
Prepaid expenses	<u>371,788</u>

Total current assets 1,726,691

#### Capital assets

Land and land improvements	205,321
Building	4,210,330
Maintenance equipment	1,123,203
Vehicles and related equipment	9,525,707
Office equipment	<u>980,088</u>
	16,044,649
Less: accumulated depreciation	<u>(8,820,224)</u>

Total capital assets 7,224,425

Total assets 8,951,116

### Liabilities

#### Current liabilities

Accounts payable	42,081
Accrued payroll and related liabilities	494,023
Due to state government	558,730
Estimated health insurance claims payable	<u>60,774</u>

Total current liabilities 1,155,608

#### Long-term liabilities

Accrued sick and vacation payable	<u>185,988</u>
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Total liabilities 1,341,596

### Net assets

Investment in capital assets	7,224,425
Unrestricted	<u>385,095</u>

Total net assets \$ 7,609,520

See Accompanying Notes to Financial Statements



**Saginaw Transit Authority Regional Services**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Year Ended September 30, 2004**

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Operating revenues	\$ 780,086
Operating expenses before depreciation	<u>8,092,467</u>
Operating loss before depreciation	(7,312,381)
Depreciation	<u>1,188,455</u>
Operating loss after depreciation	(8,500,836)
Nonoperating revenues	<u>5,274,314</u>
Net loss	(3,226,522)
Net assets, beginning before prior period adjustment	\$ 11,107,754
Prior period adjustment	<u>(271,712)</u>
Net assets, beginning after prior period adjustment	<u>10,836,042</u>
Net assets, ending	<u>\$ 7,609,520</u>

See Accompanying Notes to Financial Statements

# Saginaw Transit Authority Regional Services

## Statement of Cash Flows

Year Ended September 30, 2004

Cash flows from operating activities	
Operating revenue	\$ 745,207
Payments to suppliers	(2,013,677)
Payments to employees	<u>(6,021,028)</u>
Net cash used for operating activities	<u>(7,289,498)</u>
Cash flows from noncapital financing activities	
Proceeds from property tax revenue	498,618
Proceeds from state revenue sharing	200,270
Proceeds from operating grants	<u>5,192,668</u>
Net cash provided by noncapital financing activities	<u>5,891,556</u>
Cash flows from capital and related financing activities	
Purchases of equipment	(507,396)
Proceeds from sale of fixed assets	5,550
Proceeds from capital grants	<u>730,053</u>
Net cash provided for capital and related financing activities	<u>228,207</u>
Cash flows from investing activities	
Interest received	<u>4,764</u>
Increase (decrease) in cash and cash equivalents	(1,164,971)
Cash and cash equivalents - beginning of year	<u>1,855,024</u>
Cash and cash equivalents - end of year	<u>\$ 690,053</u>
Operating loss after depreciation	\$ (8,500,836)
Adjustment to reconcile operating loss to net cash used for operating activities	
Depreciation	1,188,455
Gain on sale of fixed assets	(230)
(Increase) decrease in assets	
Accounts receivable	(34,649)
Inventories	13,434
Prepaid expenses	7,934
Increase (decrease) in liabilities	
Accounts payable	(164,966)
Accrued payroll and related liabilities	150,132
Accrued sick and vacation payable	33,525
Health insurance claims payable	<u>17,703</u>
Net cash used for operating activities	<u>\$ (7,289,498)</u>

See Accompanying Notes to Financial Statements

**Saginaw Transit Authority Regional Services**  
**Notes to Financial Statements**  
**September 30, 2004**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

Saginaw Transit Authority Regional Services operates a public transportation system for the citizens of Saginaw County. It is incorporated under Public Act 196 of 1986, as amended. The Authority functions as a 9 member board, all of whom are selected by the Saginaw City Council. No component units are required to be reported in the Authority's financial statements.

**DESCRIPTION OF FUND**

The Authority is reported as an enterprise fund in the financial statements. An enterprise fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**BASIS OF ACCOUNTING**

The accounting policies of Saginaw Transit Authority Regional Services conform with accounting principals generally accepted in the United States of America. The Authority follows the accrual basis of accounting. The following is a summary of the more significant policies. In accordance with GASB Statement 20, the Authority has elected not to apply the FASB statements and interpretations issued after November 30, 1989 to its financial statements.

**CASH AND CASH EQUIVALENTS**

At September 30, 2004 cash and cash equivalents consisted of demand deposits and money market savings accounts.

**INVENTORIES**

Diesel fuel and oil inventory are recorded at the lower of first-in, first-out cost or market. Inventories of maintenance parts are recorded at the lower of average cost or market.

**PREPAID EXPENSES**

Prepaid expenses consist of various insurance premiums paid in advance and an operating lease on an office building used for administrative purposes.

**CAPITAL ASSETS**

Capital assets are stated at cost. Expenditures, which materially extend the useful life of existing properties, are capitalized. Depreciation is computed using the straight-line method over the following estimated useful lives:

**Saginaw Transit Authority Regional Services**  
**Notes to Financial Statements**  
**September 30, 2004**

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<u>Type of Asset</u>	<u>Useful Life in Years</u>
Building	20-40
Revenue vehicles:	
Vans	5
Buses	5-12
Fare boxes	5
Radios	6
Bus shelters	5
Maintenance equipment	5
Office equipment	5

When assets are withdrawn from mass transportation service, the grantee (the Authority) must remit to the grantor, the grantor's pro-rata share of the fair market value as of the date the asset was withdrawn from service.

#### **DEFERRED REVENUE**

Recognition of deferred revenue relates to payments received by the Authority from State and Federal sources in advance of eligible expenses being incurred.

#### **COMPENSATED ABSENCES**

Paid time off is granted to all employees who have worked 1,000 hours in the prior year at a rate based on their years of continuous service. Unused paid time off may be accumulated not to exceed 40 hours for administrative staff and 240 hours for all other employees. Upon separation of employment, employees will be paid for unused paid time off.

Paid time off utilized during the current year is recorded as a current fringe benefit expenditure. At year-end, each employee's accumulated leave is computed by applying his current (year end) rate of pay times total accumulated hours. The composite dollar total for all employees is entered as the accrued liability by an adjusting entry posted to the liability and expenditures accounts.

#### **ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

#### **FINANCIAL STATEMENT FORMAT**

The format of the accompanying financial statements and schedules are presented in accordance with the Audit Guide for Transportation Authorities provided by the Michigan Department of Transportation. This format does not vary significantly from the financial statement format prescribed under governmental accounting principles generally accepted in the United States of America.

**Saginaw Transit Authority Regional Services**  
**Notes to Financial Statements**  
**September 30, 2004**

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**ACCOUNTING CHANGE**

Effective October 1, 2003, the Authority implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Changes to the financial statements as a result of GASB No. 34 are as follows:

The statement of cash flows was prepared using the direct cash flow method instead of the indirect cash flow method.

**NOTE 2 - CASH**

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States or an agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers acceptance of U.S. Banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The carrying amount of the Authority's deposits with financial institutions was \$689,053 (excluding petty cash of \$ 1,000) and the bank balance was \$853,512, of which \$100,000 was insured by the FDIC, and \$753,512 was uninsured.

**NOTE 3 - CAPITAL ASSETS**

Major classes of capital assets consist of the following:

	Balance as of September 30, 2003	Additions	Disposals	Balance as of September 30, 2004
Assets not being depreciated				
Land	\$ 205,321	\$ -	\$ -	\$ 205,321
Other capital assets				
Buildings	4,177,359	32,971	-	4,210,330
Vehicles	9,111,149	451,357	36,799	9,525,707
Office equipment	961,020	19,068	-	980,088
Plant equipment	1,119,203	4,000	-	1,123,203
Total capital assets	15,574,052	507,396	36,799	16,044,649
Less: accumulated depreciation	<u>(7,663,248)</u>	<u>(1,188,454)</u>	<u>(31,478)</u>	<u>(8,820,224)</u>
Net capital assets	<u>\$ 7,910,804</u>	<u>\$ (681,058)</u>	<u>\$ 5,321</u>	<u>\$ 7,224,425</u>

**Saginaw Transit Authority Regional Services**  
**Notes to Financial Statements**  
**September 30, 2004**

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Depreciation expense for the year ended September 30, 2004 was \$1,188,455. When assets purchased with capital grant funds are withdrawn from mass transportation service, the grantee must remit to the grantor the grantor's pro-rata share of the fair market value as of the date the asset was withdrawn.

**NOTE 4 - LONG TERM DEBT**

The Authority has long term debt consisting of paid time off hours accrued by the employees.

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Compensated absences	<u>\$ 152,463</u>	<u>\$ 33,525</u>	<u>\$ -</u>	<u>\$ 185,988</u>	<u>\$ -</u>

**NOTE 5 - RETIREMENT PLANS**

The Authority has three retirement plans covering substantially all employees.

***Defined benefit plan***

Management and non-union employees participate in the Michigan Municipal Employees' Retirement System (MMERS), an agent multi-employer defined benefit plan. The System provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917.

The obligation to contribute to and maintain the System for these employees was established by the Board of Directors.

For the year ended September 30, 2004, the Authority's annual pension cost of \$54,722 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal actuarial cost method. Significant actuarial assumptions include: an 8% investment return; projected salary increases of 4.5% per year; and a percentage to reflect merit, longevity and promotional salary increases. The unfunded actuarial liability is being funded over 38 years.

Trend information for the three years ended December 31, 2001, 2002 and 2003 is as follows:

**Saginaw Transit Authority Regional Services**  
**Notes to Financial Statements**  
**September 30, 2004**

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	<u>12/31/01</u>	<u>12/31/02</u>	<u>12/31/03</u>
Annual pension cost fiscal year	\$ 79,884	\$ 55,044	\$ 54,722
Percentage of actual payroll covered	12%	11%	4%
Net pension obligation	None	None	None
Actuarial value of assets (market value \$ 612,187)	457,200	565,802	670,443
Actuarial accrued liability	580,627	614,961	468,684
Unfunded actuarial accrued liability	123,427	49,159	(201,759)
Funded ratio	79%	92%	143%
Covered payroll	656,470	484,523	384,328
Unfunded actuarial accrued liability as a percentage of covered payroll	19%	10%	0%

***United Steelworkers of America Local #9036 Employees***

Eligible union employees (generally full-time bus drivers and maintenance employees) were participants in the National Industrial Group Pension Plan (NIGP) through November 1998 and the Steelworkers Pension Trust for the remainder of the fiscal year. Both plans are non-contributory, and separately administered multi-employer defined benefit plans. Employees vest after the receipt of 5 vesting units if employed after 1988 and 10 vesting units if employed prior to 1988 or essentially when an employee reaches age 65. Pension benefits are determined by the plans based upon hours worked within each year (benefit unit) and the employer/union participation agreements. Contribution expense for employees to the plan was approximately \$190,868 for the year ended September 30, 2004, which represents 7.66% of covered payroll. The Authority's required contribution rate is determined by the Authority and the employee union and not an actuary.

No further contributions are required on behalf of the Authority above those specified in their Agreement with the union. As such, the obligation for benefit payments is completely transferred to the plans. Further information regarding the plans may be obtained from the Board of Trustees of the National Industrial Group Pension Plan, 71 Hanover Road, Fiorhom Park, New Jersey, 07932 or Steelworkers Pension Trust, 48 Main Street, Suite C, Dubuque, IA 52001.

***401 (k) Plan***

The Authority has continued the 401(k) (salary reduction) plan for S.E.I.U. 466M members initially established by the former management agent. The plan allows for a maximum employee contribution, as set by federal law annually, and a discretionary employer contribution that cannot exceed 6% of the employees annual compensation. The effective date of the plan was January 1, 1991. This plan was frozen and replaced with the following 401(a) Plan.

***401 (a) Plan***

The Authority has established a 401(a) (salary reduction) plan for S.E.I.U. 466M members to replace the 401(k) plan that was initially established by the former management agent. The plan allows only for employer contributions of \$ .95 per hour worked. The effective date of the plan was November 8, 2001. Employees of S.E.I.U. 466M are eligible for this plan after completing one year of service.

**Saginaw Transit Authority Regional Services**  
**Notes to Financial Statements**  
**September 30, 2004**

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Employees become vested in the employer contributions at a rate of 25% per year for the first four years in the plan. Total and covered payroll for the year ended September 30, 2004, for the S.E.I.U. 466M plan was \$318,050. Employer contributions for the S.E.I.U. 466 M Plans were \$21,820, which represented 6.86% of covered payroll.

The above pension plans do not invest in derivatives.

**NOTE 6 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) as well as medical benefits to employees. The Authority has purchased commercial insurance for all of these risks, except for medical benefits for employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Authority is essentially self-insured for employees health, dental and vision insurances. The self-insurance program is administered by an independent administrator who processes daily claims and performs management duties. Currently, the Authority insures medical claims of up to \$1,000 for an individual employee subscriber and \$2,000 per family on an annual basis. The Authority has purchased insurance coverage to pay claims exceeding the self-insured portion. The Plan also contains certain co-payments which are paid for by the Authority. The Authority is completely self-insured for dental and vision claims.

The claim liability is estimated by management. Management estimates the incurred but not reported (IBNR) liability and both the estimated claim liability and the IBNR estimates are recorded as a current expenditure. No annuity contracts have been purchased to satisfy claim liabilities.

The changes in the claims liability for the three year period beginning October 1, 2001 through 2004 are as follows:

	<u>Beginning of Year/ Period Liability</u>	<u>Current Year/Period Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year/ Period Liability</u>
2002	\$ 23,129	\$ 157,702	\$ 157,248	\$ 23,583
2003	23,583	258,428	238,940	43,071
2004	43,071	355,482	337,779	60,774



**Saginaw Transit Authority Regional Services**  
**Notes to Financial Statements**  
**September 30, 2004**

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**NOTE 7 - DEFERRED COMPENSATION**

Saginaw Transit Authority Regional Services offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of Saginaw Transit Authority Regional Services for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of accounting principles generally accepted in the United States of America, plan balances and activities are not reflected in Saginaw Transit Authority Regional Services' financial statements.

**NOTE 8 - PURCHASE COMMITMENT**

During the current year the Authority entered into a purchase commitment for two new buses with Orion VII Diesel Transit Buses totaling \$608,390. The buses will be financed through capital grants and will be received in fiscal year 2005.

**NOTE 9 - CONTINGENCIES**

The Authority has received federal and state grants for specific purposes, which are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

The Authority is a defendant in various lawsuits of wrongful discharge that are in various stages of discovery and deposition. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Authority's attorneys, the resolution of these matters will not have a material adverse effect on the financial condition of the Authority. Various union grievances have been filed which have been scheduled for arbitration. The outcome at this time is not known. Management's position is that it has acted within the collective bargaining agreements. In addition, the former general manager has made a claim for up to \$400,000, for breach of an employment contract through 2007. The outcome is not presently determinable. The Authority does not have indemnity insurance for the claim as it is presently being made.

**NOTE 10 - OPERATING LEASE**

During the prior year the Authority entered into a five year operating lease for an office building used for administrative purposes. The lease calls for annual lease payments of \$80,000. The Authority prepaid the entire operating lease with a federal capital grant in a prior year. The prepaid operating lease is included on the balance sheet under prepaid expenses in the amount of \$240,000. The current year lease expense amounted to \$80,000.

**Saginaw Transit Authority Regional Services**  
**Notes to Financial Statements**  
**September 30, 2004**

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**NOTE 11 - LINE OF CREDIT**

During the current year the Authority entered into a \$550,000 business line of credit agreement with a local bank. The Authority used approximately \$484,600 of the line of credit during the year and carried no balance on the line of credit as of September 30, 2004.

**NOTE 12 - PRIOR PERIOD ADJUSTMENT**

The September 30, 2003 financial statements have been restated to adjust the beginning balances for capital assets. The Authority took a physical inventory of capital assets and reviewed their depreciation calculation. There were two buses that had been sold in a previous year that remained on the books. In addition, capital assets were being depreciated for a full year with disregard to what quarter the capital asset had been placed in service. These adjustments resulted in a prior period adjustment of \$271,712.



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**Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit  
of Financial Statements Performed in Accordance  
with *Governmental Auditing Standards***

To the Board of Directors  
Saginaw Transit Authority Regional Services  
Saginaw, Michigan

We have audited the financial statements of Saginaw Transit Authority Regional Services as of and for the year ended September 30, 2004, and have issued our report thereon dated November 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Saginaw Transit Authority Regional Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Saginaw Transit Authority Regional Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Saginaw Transit Authority Regional Services' in a separate letter dated November 19, 2004.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass through entities and is not intended and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
November 19, 2004



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## **Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

Board of Directors  
Saginaw Transit Authority Regional Services  
Saginaw, Michigan

### **Compliance**

We have audited the compliance of Saginaw Transit Authority Regional Services with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. Saginaw Transit Authority Regional Services' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Saginaw Transit Authority Regional Services' management. Our responsibility is to express an opinion on Saginaw Transit Authority Regional Services' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Saginaw Transit Authority Regional Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Saginaw Transit Authority Regional Services compliance with those requirements.

In our opinion, Saginaw Transit Authority Regional Services complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

### Internal Control over Compliance

The management of Saginaw Transit Authority Regional Services is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Saginaw Transit Authority Regional Services' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### Schedule of Expenditures of Federal and State Awards

We have audited the basic financial statements of Saginaw Transit Authority Regional Services as of and for the year ended September 30, 2004, and have issued our report thereon dated November 19, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management and the federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
November 19, 2004

**Saginaw Transit Authority Regional Services**  
**Schedule of Expenditures of Federal and State Awards**  
**Year Ended September 30, 2004**

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State and Federal Transit Capital Improvement Grants

<u>Federal/Pass Through Grantor Program Title</u>	<u>Contract or Project Number</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Amounts Expended for the Year Ended 9/30/04</u>	<u>Cumulative Amounts as of 9/30/04</u>	<u>Unearned Amounts Remaining</u>
Direct						
Federal Transit Capital and Operating Assistance Grant	MI-90-0307-02	20.507	\$ 131,207	\$ 15,280	\$ 131,207	\$ -
	MI-90-0313-00	20.507	1,028,371	15,219	1,028,371	-
	MI-90-0369-00	20.507	588,302	29,957	369,515	218,787
	MI-90-0386-01	20.507	1,648,640	351,863	1,648,640	-
	MI-03-0169	20.500	682,760	-	679,188	3,572
	MI-03-0176	20.500	225,516	-	24,463	201,053
	MI-03-0200	20.500	491,839	-	-	491,839
Total Federal capital grants			<u>\$ 4,796,635</u>	<u>\$ 412,319</u>	<u>\$ 3,881,384</u>	<u>\$ 915,251</u>
Michigan Department of Transportation						
	2001-0852	N/A	\$ 142,076	\$ 7,489	\$ 89,351	\$ 52,725
	2002-0082-Z4	N/A	399,793	87,965	399,793	-
	2000-0457	N/A	170,690	-	169,797	893
	2001-0525	N/A	56,379	-	6,116	50,263
Total State Capital Grants			<u>\$ 768,938</u>	<u>\$ 95,454</u>	<u>\$ 665,057</u>	<u>\$ 103,881</u>

**Saginaw Transit Authority Regional Services**  
**Schedule of Expenditures of Federal and State Awards (Continued)**  
**Year Ended September 30, 2004**

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Operating Grants

<u>Federal/Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal/State or (Pass Through) Grant Number</u>	<u>Award Amount</u>	<u>Expenditures</u>
U.S. Department of Transportation Direct				
Federal Transit Operating Assistance Grant	20.507	MI-90-X442	<u>\$ 1,461,844</u>	<u>\$ 1,461,844</u>
Michigan Department of Transportation Operating Assistance - Act 51	N/A			
Fiscal year 04			\$ 2,835,121	\$ 2,835,121
Fiscal year 03			(12,024)	(12,024)
Fiscal year 99			11,806	11,806
Public Transportation for Nonurbanized Areas	20.509	2002-0082-Z11 R3	88,458	94,867
Project Zero	N/A	2004-0082 Z8	<u>197,501</u>	<u>92,776</u>
Total state operating grants			<u>\$ 3,120,862</u>	<u>\$ 3,022,546</u>

**Saginaw Transit Authority Regional Services**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**September 30, 2004**

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1. The Schedule of Expenditures of Federal Awards was prepared using the accrual basis of accounting.



**Saginaw Transit Authority Regional Services**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2004**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ yes ☒ no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
20.500 20.507	Transportation Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

**Saginaw Transit Authority Regional Services**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2004**  
**(continued)**

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**SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS**

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards for the year ended September 30, 2004.

**SECTION III - FEDERAL AWARD FINDINGS**

There were no findings or questioned costs for Federal Awards for the year ended September 30, 2004.

**Saginaw Transit Authority Regional Services**  
**Summary Schedule of Prior Audit Findings**  
**September 30, 2004**

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There were no audit findings for the year ended September 30, 2003.

**Saginaw Transit Authority Regional Services**  
**Schedule of Operating Revenues**  
**Year Ended September 30, 2004**

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Passenger fares for transit service	
Farebox revenues	\$ 174,161
Lift bus revenue	101,419
Local operating contracts	312,052
Sales of maintenance services and supplies	14,247
Child Development Center	
Sales of maintenance service and supplies	161,492
Advertising	3,320
Nontransportation revenues	<u>13,395</u>
Total operating revenues	<u>\$ 780,086</u>

**Saginaw Transit Authority Regional Services**  
**Schedule of Nonoperating Revenues**  
**Year Ended September 30, 2004**

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Property tax revenue	\$ 77,117
State revenue sharing (1)	200,270
Interest income	<u>4,764</u>
Total nonoperating revenues - local	282,151
State of Michigan Grants	
Operating assistance - Act 51	
Fiscal year 04	2,835,121
Fiscal year 03	(12,024)
Fiscal year 99	11,806
Project Zero	92,776
Federal Transit Grants	
Operating assistance	
Fiscal Year 04	1,556,711
Capital assistance	
Federal Transit Capital Grant	412,319
Michigan Department of Transportation	<u>95,454</u>
Total nonoperating revenues	<u><u>\$ 5,274,314</u></u>

Note (1) - State revenue sharing is passed through to STARS from the City of Saginaw.

**Saginaw Transit Authority Regional Services**  
**Schedule of Operating Expenses by Contract**  
**Year Ended September 30, 2004**

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	Project Zero	General Operations NonUrban \$ 5311	Urban \$ 5307	Total
Labor	\$ 43,166	\$ 283,903	\$ 3,687,149	\$ 4,014,218
Fringe benefits	23,555	154,919	2,011,993	2,190,467
Services	5,569	36,629	475,701	517,899
Materials and supplies consumed	5,899	38,801	503,910	548,610
Utilities	2,325	15,295	198,635	216,255
Casualty and liability insurance	4,434	29,162	378,735	412,331
Taxes and fees	122	797	10,342	11,261
Miscellaneous expenses	948	6,228	80,921	88,097
Interest expense	96	632	8,213	8,941
Leases and rentals	907	5,968	77,513	84,388
Depreciation	<u>12,779</u>	<u>84,053</u>	<u>1,091,623</u>	<u>1,188,455</u>
Total	<u>\$ 99,800</u>	<u>\$ 656,387</u>	<u>\$ 8,524,735</u>	<u>\$ 9,280,922</u>

**Saginaw Transit Authority Regional Services**  
**Schedule of Operating Expenses**  
**Project Zero**  
**Year Ended September 30, 2004**

	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>	<u>Total</u>
Labor				
Operators salaries and wages	\$ 22,234	\$ -	\$ -	\$ 22,234
Other salaries and wages	1,049	6,102	11,094	18,245
Dispatch salaries and wages	2,687	-	-	2,687
Fringe benefits	13,023	3,578	6,954	23,555
Services				
Advertising fees	-	-	74	74
Other services	384	1,907	3,204	5,495
Materials and supplies				
Fuel and lubricants	2,229	4	138	2,371
Tires and lubes	34	240	-	274
Other materials and supplies	2,031	464	759	3,254
Utilities	118	30	2,177	2,325
Insurance				
Liability insurance	669	168	3,597	4,434
Taxes and fees	40	17	65	122
Miscellaneous expense				
Travel, meetings and training	1	-	473	474
Association dues	-	-	319	319
Other miscellaneous expense	30	56	69	155
Interest expense	-	-	96	96
Operating leases and rentals	-	-	907	907
Depreciation	<u>9,229</u>	<u>1,041</u>	<u>2,509</u>	<u>12,779</u>
Total expenses	<u>53,758</u>	<u>13,607</u>	<u>32,435</u>	<u>99,800</u>
Ineligible expenses				
Ineligible depreciation expense	8,011	904	2,178	11,093
Interest expense	<u>-</u>	<u>-</u>	<u>51</u>	<u>51</u>
Total ineligible expenses	<u>8,011</u>	<u>904</u>	<u>2,229</u>	<u>11,144</u>
Total eligible expenses	<u>\$ 45,747</u>	<u>\$ 12,703</u>	<u>\$ 30,206</u>	<u>\$ 88,656</u>

**Saginaw Transit Authority Regional Services**  
**Schedule of Operating Expenses**  
**NonUrban City Regular Service**  
**Year Ended September 30, 2004**

	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>	<u>Total</u>
Labor				
Operators' salaries and wages	\$ 146,232	\$ -	\$ -	\$ 146,232
Other salaries and wages	6,897	40,136	72,966	119,999
Dispatcher salaries and wages	17,672	-	-	17,672
Fringe benefits	85,653	23,530	45,736	154,919
Services				
Advertising fees	-	-	486	486
Other services	2,524	12,544	21,075	36,143
Materials and supplies consumed				
Fuel and lubricants	14,661	29	911	15,601
Tires and tubes	223	1,580	-	1,803
Other materials and supplies	13,356	3,052	4,989	21,397
Utilities	779	200	14,316	15,295
Casualty and liability insurance				
Premium for public liability	4,400	1,103	23,659	29,162
Taxes and fees	262	110	425	797
Miscellaneous expenses				
Travel and meetings	9	-	3,109	3,118
Association dues	-	-	2,098	2,098
Other miscellaneous expenses	195	360	457	1,012
Interest expense	-	-	632	632
Leases and rentals	-	-	5,968	5,968
Depreciation	<u>60,701</u>	<u>6,848</u>	<u>16,504</u>	<u>84,053</u>
Total expenses	<u>353,564</u>	<u>89,492</u>	<u>213,331</u>	<u>656,387</u>
Ineligible expenses				
Ineligible depreciation expense	52,687	5,944	14,325	72,956
Interest expense	-	-	337	337
Ineligible percent of dues	-	-	208	208
Advertising expense	-	-	235	235
Sale of maintenance expense	<u>-</u>	<u>12,429</u>	<u>-</u>	<u>12,429</u>
Total ineligible expenses	<u>52,687</u>	<u>18,373</u>	<u>15,105</u>	<u>86,165</u>
Total eligible expenses	<u>\$ 300,877</u>	<u>\$ 71,119</u>	<u>\$ 198,226</u>	<u>\$ 570,222</u>



**Saginaw Transit Authority Regional Services**  
**Schedule of Operating Expenses**  
**Urban Medium Regular Service**  
**Year Ended September 30, 2004**

	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>General Administration</u>	<u>Total</u>
Labor				
Operators' salaries and wages	\$ 1,899,161	\$ -	\$ -	\$ 1,899,161
Other salaries and wages	89,568	521,261	947,641	1,558,470
Dispatcher salaries and wages	229,518	-	-	229,518
Fringe benefits	1,112,410	305,596	593,987	2,011,993
Services				
Advertising fees	-	-	6,314	6,314
Other services	32,774	162,911	273,702	469,387
Materials and supplies consumed				
Fuel and lubricants	190,403	377	11,826	202,606
Tires and tubes	2,897	20,523	-	23,420
Other materials and supplies	173,453	39,632	64,799	277,884
Utilities	10,112	2,599	185,924	198,635
Casualty and liability insurance				
Premium for public liability	57,147	14,319	307,269	378,735
Taxes and fees	3,401	1,425	5,516	10,342
Miscellaneous expenses				
Travel and meetings	119	-	40,374	40,493
Association dues	-	-	27,248	27,248
Other miscellaneous expenses	2,552	4,686	5,942	13,180
Interest expense	-	-	8,213	8,213
Leases and rentals	-	-	77,513	77,513
Depreciation	<u>788,343</u>	<u>88,934</u>	<u>214,346</u>	<u>1,091,623</u>
Total expenses	<u>4,591,858</u>	<u>1,162,263</u>	<u>2,770,614</u>	<u>8,524,735</u>
Ineligible expenses				
Ineligible depreciation expense	684,266	77,193	186,048	947,507
Interest expense	-	-	4,376	4,376
Ineligible percent of dues	-	-	2,699	2,699
Advertising expense	-	-	3,085	3,085
Sale of maintenance expense	<u>-</u>	<u>163,310</u>	<u>-</u>	<u>163,310</u>
Total ineligible expenses	<u>684,266</u>	<u>240,503</u>	<u>196,208</u>	<u>1,120,977</u>
Total eligible expenses	<u>\$ 3,907,592</u>	<u>\$ 921,760</u>	<u>\$ 2,574,406</u>	<u>\$ 7,403,758</u>

**Saginaw Transit Authority Regional Services**  
**Schedule of Net Eligible Cost Computations of General Operations**  
**Year Ended September 30, 2004**

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	General Operations	
	NonUrban	Urban
	§ 5311	§ 5307
Expenses		
Labor	\$ 283,903	\$ 3,687,149
Fringe benefits	154,919	2,011,993
Services	36,629	475,701
Materials and supplies consumed	38,801	503,910
Utilities	15,295	198,635
Casualty and liability insurance	29,162	378,735
Taxes and fees	797	10,342
Miscellaneous expenses	6,228	80,921
Interest expense	632	8,213
Leases and rentals	5,968	77,513
Depreciation	84,053	1,091,623
Total expenses	<u>656,387</u>	<u>8,524,735</u>
Less ineligible expenses		
Expenses associated with maintenance contracts	12,429	163,310
Advertising expense	235	3,085
Interest expense	337	4,376
Ineligible percent of dues	208	2,699
State and Federal depreciation	72,956	947,507
Total ineligible expenses	<u>86,165</u>	<u>1,120,977</u>
Net eligible expenses - eligible for State operating assistance	570,222	7,403,758
Local Bus operating reimbursement percentages as of 9/30/04	<u>42.23%</u>	<u>35.20%</u>
Estimated state operating assistance	<u>\$ 240,805</u>	<u>\$ 2,606,123</u>
State operating assistance revenue received	<u>\$ 341,205</u>	<u>\$ 3,064,453</u>
State operating assistance revenue to be received	<u>\$ (100,400)</u>	<u>\$ (458,330)</u>

**Saginaw Transit Authority Regional Services**  
**Schedule of Local Match of Federal Operating Assistance**  
**Year Ended September 30, 2004**

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Pursuant to Federal requirements, local operating subsidies for the purpose of matching federal operating subsidies were provided from the following sources

Property tax revenue	\$ 77,117
State of Michigan - revenue sharing distribution	200,270
State of Michigan formula operating assistance - Act 51	2,823,097
Excess local match to be applied for capital acquisition and operations in future periods	<u>(3,100,484)</u>
Total local match	<u>\$ -</u>

**Saginaw Transit Authority Regional Services**  
**Schedule of Mileage Data (Unaudited)**  
**Year Ended September 30, 2004**

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	<u>Public Transportation Mileage</u>	<u>Child Development Center Mileage</u>
Linehaul	776,242	50,329
Demand response	374,791	-
Project Zero	<u>6,286</u>	<u>-</u>
Total mileage	<u><u>1,157,319</u></u>	<u><u>50,329</u></u>

The linehaul, demand response and Project Zero miles include the distance from the garage to the route origin and back for each bus.

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours and number of passengers transported for the year ended September 30, 2004, are presented on this page and the following page. The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

**Saginaw Transit Authority Regional Services**  
**Schedule of Vehicle Hours and Passengers (Unaudited)**  
**Year Ended September 30, 2004**

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	<u>Number of Vehicle Hours</u>	<u>Number of Regular Passengers</u>	<u>Number of Senior Passengers</u>	<u>Number of Handicapped Passengers</u>	<u>Total Number of Senior and Handicapped Passengers</u>
Linehaul	63,846	652,328	56,699	28,181	84,880
Demand response	25,757	7,660	24,081	19,930	44,011
Project Zero	974	1,551	-	-	-

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.



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November 19, 2004

Board of Directors  
Saginaw Transit Authority Regional Services  
Saginaw, Michigan

In planning and performing our audit of the financial statements of Saginaw Transit Authority Regional Services for the year ended September 30, 2004, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control system.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 19, 2004, on the financial statements of Saginaw Transit Authority Regional Services.

#### **ATTACH SUPPORTING INVOICES WITH CHECK SUBMITTED FOR SIGNATURE**

During our audit, we noted that supporting documentation was not being attached to checks submitted for signature. We recommend that all checks submitted to management for signature should in every case be accompanied by the supporting invoices which should be initialed to reflect final approval for payment. In the case of expenditures not likely to be supported by formal invoice, we suggest that preprinted "check request" forms be made available that will provide for date, payee, check number, description of expenditure and approval signature. These would serve as the supporting documentation accompanying checks to be signed.

#### **PETTY CASH**

Our testing revealed that there was an instance where petty cash was reimbursed without supporting documentation. Disbursements made from petty cash should be supported by vouchers. These vouchers should be reviewed prior to reimbursement and, together with supporting documentation, should be cancelled, to prevent misuse.

#### **PAYROLL SYSTEM**

Our review of the payroll system revealed that several individuals have access to the payroll system. These individuals have access to change pay rates during the year. We would recommend having an individual periodically review the pay rates on the system compared to employee contracts. We would recommend that this individual not have the ability to make changes to the payroll system. Furthermore, all changes made to pay rates, payroll deductions, or hours should be reviewed by management each pay period. This control would deter an employee from changing pay rates without the proper authorization.

#### **CREDIT CARDS**

During our review of the credit card expenditures for the current year audit we noted instances where the expenditure was not supported by proper documentation. Credit cards maintained by Saginaw Transit Authority Regional Services are currently not in use. We recommend that the Authority cancel all credit cards; however, if the Authority chooses to maintain credit cards we urge them to approve a credit card policy. This policy should discuss the proper use of credit cards and the approval process of credit cards. All credit card expenditures should be for business purposes only and should be supported by documentation of the expenditure.

### **TRAVEL EXPENSES**

In testing travel expenses, it was found that there were expenses that were lacking documentation. We recommend that the Authority adopt a travel expense policy requiring employees to submit all reimbursable expenses with proper documentation to the accounting department twice monthly for review and reimbursement.

### **PAID TIME OFF**

The Authority's current policy states that employees can carry over up to 240 hours of paid time off. Employees are supposed to be paid out for all hours in excess of 240. During the audit we noted a number of employees with balances over 240 hours. Through inquiry of management it was noted that this was due to the current financial situation at Saginaw Transit Authority Regional Services. We recommend that the Authority pay these individuals for all hours in excess of 240 hours or consider changing the policy.

### **POLICIES AND PROCEDURES**

In previous years, the Authority had implemented adequate procedures and policies. Over time, we noted that several policies and procedures were discontinued. This appears to have been due to new employees and procedural changes. The Board is responsible for giving management the authority to implement and enforce policies and procedures. These policies and procedures should improve the Authority's internal accounting procedures and controls and address fraud and abuse. The Authority is responsible for receiving and investigating complaints regarding internal control matters and employee concerns, or allegations of, ethical or other wrongdoing. The Authority should establish procedures for such receipt and response, including procedures for employees or others to submit concerns confidentially or anonymously. We recommend that these policies be updated and reviewed by the Board of Directors every three years. The Board should verify that management has implemented and enforced the policies and procedures adopted by the Authority.

### **IMPROVEMENTS**

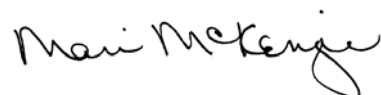
We noted during our audit that the Authority has made improvements in the budgeting process. Management has used the budget as a tool for planning the future operations of the business. The Authority has updated the budget for the operational changes during the year under audit. Thus, the budget for the fiscal year is a more meaningful evaluation of the Authority.

The Authority performed a physical inventory of property and equipment during the current year. The capital asset listing was updated to reflect the assets maintained by the Authority. This ensured that the capital assets were properly stated and that depreciation was being calculated from a reliable listing.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Very Truly Yours,

Yeo & Yeo, P.C.  
CPAs and Business Consultants



Mari McKenzie